

**Annual Report**  
**on**  
**Social Security Pre-effectuation Reviews of**  
**Favorable State Disability Determinations**



**Fiscal Year 2016**

**PRE-EFFECTUATION REVIEW OF FAVORABLE  
STATE DISABILITY DETERMINATIONS BY  
THE SOCIAL SECURITY ADMINISTRATION  
FISCAL YEAR 2016**

**Background**—We submit this annual report pursuant to section 221(c)(3)(C) of the Social Security Act (Act). The Act requires us to report to the Committee on Ways and Means of the House of Representatives and to the Committee on Finance of the Senate on the pre-effectuation reviews (PER) conducted during the previous fiscal year of disability determinations made by the State disability determination services (DDS). The legislative mandate specifies that the PER report include information on: (1) the numbers of such reviews; and (2) our findings based on such reviews of the accuracy of the State DDS determinations.

Title II of the Act requires the Commissioner to review at least 50 percent of all State DDS initial and reconsideration allowances of applications for Old-Age, Survivors, and Disability Insurance (OASDI) benefits based on disability. The Act further requires the Commissioner to review a sufficient number of OASDI medical continuing disability review (CDR) continuances to ensure a high level of accuracy in such determinations.

In addition, Public Law 109-171, the Deficit Reduction Act of 2005, added section 1633(e) to Title XVI of the Act, requiring similar PERs of specified levels of DDS allowances of applications by persons aged 18 or older for Supplemental Security Income (SSI) benefits based on blindness or disability. Since fiscal year (FY) 2008, the required level of our SSI reviews is also at least 50 percent of initial and reconsideration allowances.

We present the PER results for FY 2016 in Table 1. The following paragraphs also summarize some of the key findings.

**Initial and reconsideration allowances**—We reviewed 293,876 Title II allowances under the PER process, representing 53.9 percent of all DDS allowances for Title II disability benefits in FY 2016. We returned 12,616 deficient cases to DDS offices, representing a return rate of 4.3 percent. After corrective action, we estimate that 6,155 of these deficient initial and reconsideration allowances will change to denials, representing a change rate of 2.1 percent of the total reviews of allowances initiated under Title II. Table 1 presents these overall results for reviews initiated under Title II, split between cases that involved only Title II benefits and those cases that also involved Title XVI benefits.

In addition, for cases involving only Title XVI disabled or blind adults, we reviewed 105,333 Title XVI initial and reconsideration allowances for adults based on blindness or disability during FY 2016, representing 54.3 percent of all DDS allowances for adult SSI benefits. We determined that 3,372 of these cases were deficient and returned them to DDS offices for corrective action, representing a return rate of 3.2 percent. After corrective action, we estimate that 1,520 of these deficient initial and reconsideration allowances will change to denials, representing a change rate of 1.4 percent of the total reviews of Title XVI adult allowances.

It is important to note that we base both the Title II and Title XVI change rate projections on the results of corrective action on at least 95 percent of deficient PER cases; therefore, the actual number of changed decisions could vary slightly from the projected numbers.

**Disability continuance determinations**—In FY 2016, we initiated 5,992 PERs of favorable Title II CDR determinations, representing 2.2 percent of all such continuances. Of these reviews, we returned 113 deficient CDR continuances to State DDS offices, representing a return rate of 1.9 percent. After we corrected deficient continuances, we estimate that 53 of the continuance determinations reviewed in FY 2016 would change to cessations, an estimated change rate of 0.9 percent. Of the 5,992 CDR continuances we reviewed, 1,291 were concurrent Title II/XVI continuances. Unlike Title II, there is no requirement to review any Title XVI-only CDR continuances, and we conducted no such reviews in FY 2016.

<b>Table 1.—Pre-effectuation Reviews in FY 2016</b>					
	Reviews initiated under Title II			Reviews initiated under Title XVI	Total
	Title II-only reviews	Title II reviews involving title XVI recipients	Subtotal, Title II		
<b>Universe of cases subject to PER—</b>					
DDS allowances:					
Initials	359,395	140,757	500,152	179,983	680,135
Reconsiderations	29,797	15,508	45,305	14,174	59,479
Total, initials and reconsiderations	389,192	156,265	545,457	194,157	739,614
CDR continuances	224,063	49,090	273,153	<sup>a</sup>	273,153
<b>Cases reviewed—</b>					
<i>Number of cases:</i>					
Initials	157,790	106,459	264,249	96,766	361,015
Reconsiderations	17,062	12,565	29,627	8,567	38,194
Total, initials and reconsiderations	174,852	119,024	293,876	105,333 <sup>a</sup>	399,209
CDR continuances	4,701	1,291	5,992		5,992
<i>Percent of corresponding cases subject to PER:</i>					
Initials	43.9%	75.6%	52.8%	53.8%	53.1%
Reconsiderations	57.3%	81.0%	65.4%	60.4%	64.2%
Total, initials and reconsiderations	44.9%	76.2%	53.9%	54.3%	54.0%
CDR continuances	2.1%	2.6%	2.2%	<sup>a</sup>	2.2%
<b>Cases returned for correction—</b>					
<i>Number of cases:</i>					
Initials	6,410	4,814	11,224	3,092	14,316
Reconsiderations	758	634	1,392	280	1,672
Total, initials and reconsiderations	7,168	5,448	12,616	3,372	15,988

CDR continuances				<sup>a</sup>	
.....	86	27	113		113
<i>Percent of corresponding cases reviewed:</i>					
Initials	4.1%	4.5%	4.2%	3.2%	4.0%
Reconsiderations	4.4%	5.0%	4.7%	3.3%	4.4%
Total, initials and reconsiderations	4.1%	4.6%	4.3%	3.2%	4.0%
CDR continuances				<sup>a</sup>	
.....	1.8%	2.1%	1.9%		1.9%
<b>Cases projected to have decision changed after review—</b>					
<i>Number of cases:</i>					
Initials	3,001	2,385	5,386	1,395	6,781
Reconsiderations	412	367	769	125	894
Total, initials and reconsiderations	3,413	2,742	6,155	1,520	7,675
CDR continuances				<sup>a</sup>	
.....	41	12	53		53
<i>Percent of corresponding cases reviewed:</i>					
Initials	1.9%	2.2%	2.0%	1.4%	1.9%
Reconsiderations	2.4%	2.8%	2.6%	1.5%	2.3%
Total, initials and reconsiderations	2.0%	2.3%	2.1%	1.4%	1.9%
CDR continuances				<sup>a</sup>	
.....	0.9%	0.9%	0.9%		0.9%

<sup>a</sup> Pre-effectuation reviews of Title XVI CDR continuances are not required, and we conducted none in FY 2016.

***Findings on the accuracy of favorable disability determinations under Title II and Title XVI—*** Based on results of our PERs in FY 2016, we found that the decision to allow or continue was supportable in 97.9 percent of all DDS favorable Title II disability determinations. Regarding Title XVI-only adult disability benefit applications, we found that the decision to allow was supportable in 98.6 percent of such DDS allowances.

***Estimated Federal benefit savings attributable to PER—*** Individuals denied because of a PER, as with other DDS-level determinations, may appeal the decision. Following all appeals, we estimate that 3,388 Title II initial and reconsideration error cases (1.2 percent of all such PER reviews) will remain denials. For the corresponding reviews of Title XVI-only cases, we estimate that 1,010 cases (1.0 percent of all such PER reviews) will remain denials. For reviews of Title II CDR cases, we estimate that 30 of the continuance error cases (0.5 percent of all such reviews) will remain cessations after all appeals. These changed determinations result in a reduction in lifetime benefits that would have been payable from the OASDI and SSI programs had we not conducted the PERs, along with net savings from Medicare and Medicaid. Overall, we estimate that the PER process for FY 2016 will result in net savings in Federal outlays totaling \$788 million in net lifetime Federal benefits. We present details of these estimates in Table 2.

**Table 2.—Estimated Net Lifetime Federal Benefit Savings Due to the Pre-Effectuation Review of Disability Cases in Fiscal Year 2016**

Item	Initial and reconsideration allowances	CDR continuances	Total, all reviews
Estimated number with decision changed after review, and after all appeals:			
Cases initiated under Title II	3,388	30	3,418
Cases initiated under Title XVI	1,010	a	1,010
Estimated present value of net lifetime benefits saved, as of the end of FY 2016 (in millions):			
OASDI benefit payments <sup>b</sup>	\$504	\$4	\$509
Medicare benefit payments <sup>c</sup>	216	2	218
Federal SSI payments:			
Title XVI-only cases	49	a	49
Concurrent cases	15	d	16
Subtotal, SSI savings	65	d	65
Federal share of Medicaid payments <sup>c</sup> :			
Title XVI-only cases	d	a	d
Concurrent cases	-4	d	-4
Subtotal, Medicaid savings	-4	d	-4
Total, all Federal savings:			
Cases initiated under Title II	732	7	738
Cases initiated under Title XVI	50	a	50
Total	781	7	788

<sup>a</sup> Pre-effectuation reviews of Title XVI CDR continuances are not required, and we conducted none in FY 2016.

<sup>b</sup> Includes a net gain of \$23.1 million from changing the date of disability onset in certain initial and reconsideration cases.

<sup>c</sup> The Office of the Actuary in the Centers for Medicare & Medicaid Services provided the estimates shown in the above table for savings in the Medicare and Medicaid programs.

<sup>d</sup> Between -\$0.5 million and \$0.5 million.

Notes: 1. The estimates are based on the intermediate assumptions from the *2017 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, the intermediate assumptions of the *2017 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*, and assumptions underlying the *2017 Annual Report of the Supplemental Security Income Program*.

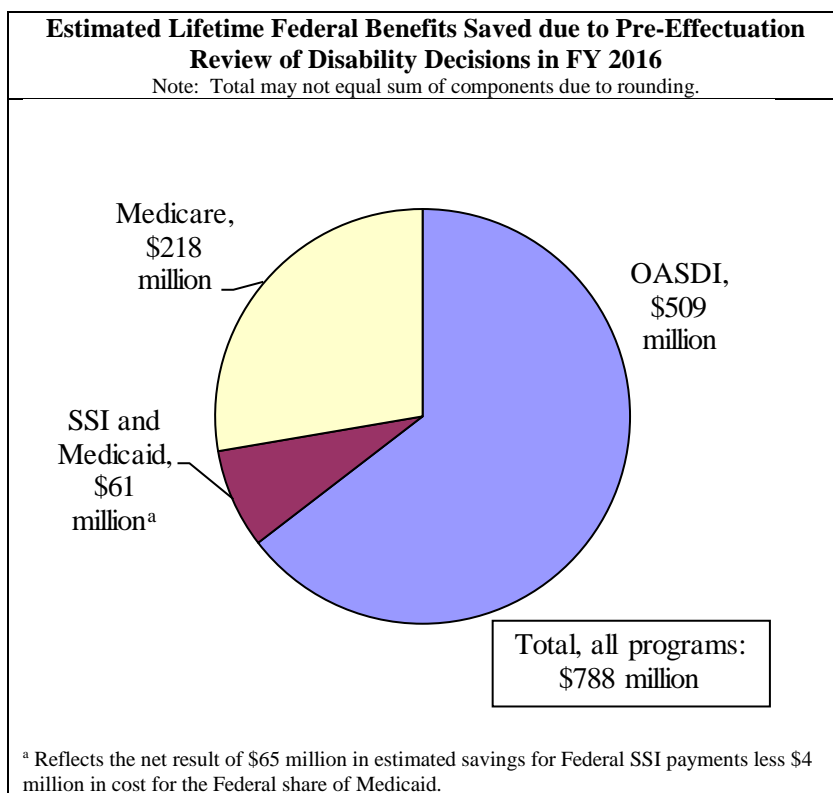
2. The estimated savings represent the direct effects on net lifetime Federal benefits of claims ultimately denied OASDI or SSI program eligibility as a result of the PER process. See the body of the report for further information.

3. Totals may not equal sum of components due to rounding.

As shown in Table 2, we estimate that the prevention of disability allowances and continuances as a direct result of PER in FY 2016 will result in net lifetime savings (after all appeals) of \$509 million in OASDI benefit payments, \$65 million in Federal SSI payments, \$218 million

in Medicare benefits, and a net cost of \$4 million in the Federal share of Medicaid payments. The Medicaid estimates reflect the effects of an Affordable Care Act provision whereby States have the option starting in 2014 to provide Medicaid coverage to individuals residing in households with income up to 138 percent of poverty<sup>1</sup> with significantly higher Federal matching on the benefits paid under the expanded coverage than without the expansion. We illustrate the relative size of these PER savings contributions in the chart below. It is important to note that the estimated savings presented in this report represent the direct effects on net lifetime Federal benefits of claims ultimately denied OASDI or SSI program eligibility as a result of the PER process. In addition to the direct program savings resulting from PER in FY 2016, there is an indirect effect on determinations where adjudicators are more thorough and accurate as a result of feedback from PER in prior case determinations. Such indirect effects are not reflected in the estimates shown in table 2 and the accompanying chart.

The direct administrative cost of performing pre-effectuation review of 399,209 allowances and 5,992 continuances was about \$54 million. This amount, however, does not include the cost of processing appeals of allowances or continuances that we reversed to denials or cessations after a PER. We estimate the total amount expended to achieve these estimated Federal savings, including the cost of processing appeals of PER reversals, to be approximately \$61 million. Thus, we estimate that the reviews conducted in FY 2016 will result in savings of approximately \$15 on average per \$1 spent directly on PERs, or \$13 on average per \$1 of the total cost of PERs. We present a complete summary of these benefit-to-cost ratio results in Table 3 below.



Item	Reviews initiated under --		Total, all reviews
	Title II	Title XVI	
Estimated present value <sup>a</sup> of net lifetime Federal benefits saved under the OASDI, SSI, Medicare, and Medicaid programs (in millions)	\$738	\$50	\$788
Cost of conducting PER (in millions):			
Direct cost of PER reviews	46	8	54

<sup>1</sup> National Federation of Independent Business v. Sebelius, 132 Supreme Court 2566 (2012).

Estimated cost of appeals of PER reversals	6	1	7
.....			
Total cost of PER	52	9	61
.....			
Benefits saved per \$1 of --			
Direct PER review cost <sup>b</sup>	15.9	6.5	14.6
.....			
Total PER cost <sup>a</sup>	14.2	5.4	12.9
.....			
<sup>a</sup> As of September 30, 2016			
<sup>b</sup> Computed using unrounded amounts of estimated benefits and administrative expenses.			
Note: Totals may not equal sum of components due to rounding.			

As indicated in Table 3, reviews conducted in FY 2016 that were initiated under Title II provided on average more than twice as much in Federal benefit savings as those initiated under Title XVI, per \$1 of the cost of conducting PERs.